

CITY OF HANFORD

REPORT TO MANAGEMENT

YEAR ENDED JUNE 30, 2009

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February 8, 2010

Honorable City Council
City of Hanford
Hanford, California

In planning and performing our audit of the financial statements of the City of Hanford (City) for the year ended June 30, 2009, we considered the City's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Although our audit is not designed to provide assurance on the internal control structure, we noted certain matters involving the internal control structure and its operation and are submitting for your consideration related recommendations designed to help the City make improvements and achieve operational efficiencies. Our comments reflect our desire to be of continuing assistance to the City.

As part of an audit under generally accepted auditing standards, certain communications between the auditor and City Council are required as a matter of standard procedure. A summary of those annual communications accompanies this letter.

The accompanying comments and recommendations are intended solely for the information and use of the City Council, management, and officials of the City. However, this report is a matter of public record and its distribution is not limited.

Very truly yours,

Sampson, Sampson and Partners, LLP

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CITY OF HANFORD
REPORT TO MANAGEMENT
REQUIRED COMMUNICATIONS

Professional standards require that we communicate the following matters related to the conduct of the audit to those who have responsibility for the oversight of the financial reporting process.

1. Our Responsibility under Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated June 5, 2009, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance about whether the basic financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the City of Hanford's (City) internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Hanford are described in the notes to the basic financial statements.

CITY OF HANFORD
REPORT TO MANAGEMENT
REQUIRED COMMUNICATIONS

(Continued)

We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Management's estimate of self-insurance reserves for general liability and workers' compensation is based on actuarial report analyses, prior loss experience, and inherent risk.

While management used the best information available to evaluate the adequacy of the closure costs and self-insurance reserves, future adjustments may be necessary.

In addition management's estimate of the useful lives of capital assets may require further adjustments.

We evaluated the key factors and assumptions used to develop the self-insurance reserves and the assumptions used to develop useful lives of capital assets. These evaluations were used in determining their reasonableness in relation to the basic financial statements of the City taken as a whole.

4. Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures.

No significant audit adjustments were proposed as a result of the audit process.

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REQUIRED COMMUNICATIONS

(Continued)

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's basic financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Hanford's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

CITY OF HANFORD
REPORT TO MANAGEMENT
CURRENT YEAR COMMENTS

1. Cash and Investments

Comments:

The investment balances as shown on the year-end brokerage statements did not agree to the year-end general ledger balances. The reason for the variance was due to premiums paid on the purchase of various investments that were not recorded.

Recommendations:

We recommend that the brokerage trade confirmation be reviewed for each investment purchase and that any premiums paid be reflected on the City's books.

2. Purchase Orders/Accounts Payable

Comments:

The process for recording accounts payable at year end requires a review of outstanding invoices to ascertain if they need to be recorded as a liability at year end (i.e. June 30th). If upon review, it is determined that the invoice belongs in the fiscal year, then it should be recorded as a liability for that year. The date of the invoice and/or transaction recorded on the invoice would indicate the proper recording period.

During our audit of accounts payable, we noted instances where staff was recording year end accounts payable from purchase orders and not from invoices. The invoices were dated after June 30th and the goods or services were not delivered or completed until the following year.

Recommendations:

The procedure for recording accounts payable should be reviewed by those processing accounts payable invoices. Recording accounts payable from purchase orders should be discontinued. Accounts payable should be recorded in the period in which the goods and services are received in order to reflect proper cutoff and ensure that the financial statements are complete with respect to accounts payable. This is a repeat recommendation from prior year.

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REPORT TO MANAGEMENT
CURRENT YEAR COMMENTS

(Continued)

3. Building Permits

Comments:

During our audit of building permits, we noted instances where Kings County fees were charged from a prior year fee schedule rather than the current one. It appears current fee schedule had not been entered into the computer system.

Recommendations:

All charges for building permits should be calculated from the prescribed fee schedule. If necessary, the billing software should be revised to reflect only the current rates in addition other fees seem to be miscalculated based on garages and patios not charged inspection fees.

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STATUS OF PRIOR YEAR COMMENTS

PRIOR YEAR COMMENTS	STATUS
1. Recording accounts payable from purchase orders should be discontinued.	See current year's comment #2.
2. Building permits were charging customers arbitrarily rather than based on approved fee schedules.	See current year's comments #3.